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Selective Prosperity

Increasing Income Disparities Since 1977

Center on Budget and Policy Priorities

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Isaac Shapiro
Robert Greenstein

Center on Budget and Policy Priorities
Washington, D.C.

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Preface

In May 1991, the House Committee on Ways and Means published a 1,600-page volume of background material and data tables on matters ranging from Social Security and Medicare to recent trends in income distribution. The information in this volume (called the *Green Book*) is one of the best sources of information regarding both government programs and changes in our nation's well-being. The following analysis is based primarily on data from that source.

In particular, our analysis is based on an extensive series of data tables included in the *Green Book* and prepared by the Congressional Budget Office on recent trends in the distribution of income and on changes in federal tax burdens among various income groups. The CBO tables represent one of the most detailed data sets available on such trends. The tables are based on data from four sources: the Current Population Survey conducted annually by the Census Bureau; Statistics of Income data compiled by the Internal Revenue Service each year from an extensive sample of individual income tax returns; the Consumer Expenditure Survey conducted by the Bureau of Labor Statistics; and the National Income and Product Accounts.

Our analysis is based primarily on CBO tables covering the years from 1977 to 1988. The tables reflect what actually transpired during these years in income distribution trends. In this respect, this analysis differs from an analysis issued one year ago by the Center on Budget and Policy Priorities, *Drifting Apart: New Findings on Growing Income Disparities Between the Rich, the Poor, and the Middle Class*. That report was based on CBO data published in last year's *Green Book* on income trends from 1980 to 1990. Those data reflected CBO projections for 1990, rather than actual data for that year. The new CBO data tables improve on those issued a year ago because they include hard data for a recent year, 1988.

Thus, the data used in this report generally cover a period ending in 1988. In a few places, CBO projections for a later year are used where this is necessary to account for recent changes in government policies. For example, when examining the federal tax system, projected data for 1992 are used in order to incorporate the generally progressive changes made in tax laws by the 1990 budget agreement.

Summary

New data compiled by the Congressional Budget Office, and published in the *1991 Green Book* issued by the House Committee on Ways and Means, provide fresh evidence of a growing trend toward greater income inequality in the U.S. During the period examined by CBO, the incomes of the wealthiest households shot up dramatically. But middle-income households received only a slight income gain, and low-income households became poorer.

- From 1977 to 1988, the average *after*-tax income of the poorest fifth of households fell 10 percent, after adjusting for inflation.[1]

- The middle fifth of households experienced an average after-tax income gain of less than four percent over this period.

- By contrast, the top fifth of households realized an average gain in after-tax income of 34 percent. At the same time, the average after-tax income of the richest one percent of Americans more than doubled from 1977 to 1988, rising 122 percent after adjusting for inflation. The average after-tax income of these households reached $451,000 in 1988, up from $203,000 in 1977.[2]

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[1] CBO selected 1977 as a comparison year because it immediately precedes significant changes in income taxes and Social Security taxes. CBO selected 1988 because that is the latest year for which these data were available.

[2] The dollar figures used here are expressed in 1992 dollars.

Due to these developments, the division of the overall economic pie became much more unequal. An especially large share of income is now received by the richest one percent of Americans.

- In 1988, the total after-tax income of the richest one percent of all Americans was almost as great as the total after-tax income of the bottom 40 percent of Americans combined. In other words, *the richest 2.5 million Americans now have nearly as much income as the 100 million Americans with the lowest incomes.*

- This is in sharp contrast to 1977, when the total after-tax income of the bottom 40 percent of Americans was more than double the total after-tax income of the richest one percent.

The share of the national income going to the middle class also declined during this period. In 1977, the broad middle class — the 60 percent of U.S. households in the middle of the income spectrum — received 50.6 percent of all after-tax income. By 1988, its share had dropped to 46.3 percent.

This leads to another new development in the division of the nation's economic pie: the wealthiest one-fifth of the population received as much after-tax income in 1988 as the other 80 percent of the population combined.

The growth in income inequality shown by the CBO data is also reflected in Census data released last fall. The Census data show in 1989, the last full year of the recovery, *before*-tax income was more unevenly divided than at any time since the end of World War II. (As would be expected, most Americans did benefit from the long economic recovery in the 1980s, but upper-income households gained the most. Moreover, over the course of the full business cycle from 1979 to 1989, including the recessions of the early 1980s and the subsequent recovery, upper-income households were the only group to emerge with significant income improvements.)

Factors Contributing to Growing Before-Tax Income Disparities

Most of the growth in income disparities has resulted from increased inequality in *before*-tax incomes. One factor influencing the divergence in before-tax incomes is a growing wage and salary gap between high-earners and other Americans. The average wage and salary income of the richest one percent of Americans more than doubled from 1977 to 1988, after adjusting for inflation, rising by $130,000 per household. By contrast, the average wage and salary

income of the bottom 90 percent of the population *fell* 3.5 percent or more than $800.

Very large increases in the capital gains income of wealthy households also contributed to the sharpening of income disparities.

- From 1977 to 1988, the average capital gains income of the wealthiest one percent of households more than doubled, rising from $72,000 to $156,000.

- For other Americans, the picture was very different. The average household in the bottom 90 percent of the population experienced a $47 *drop* in capital gains income from 1977 to 1988, after adjusting for inflation. Their capital gains income fell from $299 to $252.

For households in the lower parts of the income scale, reductions in government benefit programs contributed to the decline in their before-tax incomes. The data in the *Green Book* indicate that 43 percent of the increase in poverty between 1979 and 1989 was due to reductions in benefit programs at federal, state, and local levels.

Especially sharp reductions occurred in the Aid to Families with Dependent Children program, the nation's basic cash assistance program for poor single-parent families. From 1970 to 1991, the maximum AFDC benefit for a family of three with no other income declined 42 percent in the typical state, after adjusting for inflation. In fact, AFDC benefits have eroded so sharply that the average value of AFDC and food stamp benefits *combined* has now fallen to about the same level as the value of AFDC benefits *alone* in 1960, before the food stamp program was created.

The recent contraction of another part of the safety net — unemployment insurance — has had a detrimental effect on unemployed workers at various income levels. This contraction has been keenly felt in recent months; the proportion of the unemployed receiving benefits during the current recession has been smaller than in any other recession since the end of World War II.

Effect of Changes in Tax Burdens

While the bulk of the growth in inequality is due to increased disparities in *before*-tax incomes, changes in federal tax policy exacerbated these trends. CBO data indicate that in the period since 1977, the richest Americans received large tax reductions, while middle-income Americans did not.

- Between 1977 and 1992, the effective tax rate borne by the richest one percent of Americans — that is, the percentage of income they pay in all federal taxes combined — will decline 18 percent. (The CBO data cited here extend to 1992; this is done to incorporate the impact of the tax provisions in last fall's budget agreement.) In 1977, the richest one percent of U.S. households paid an average of 35.5 percent of their income in federal taxes. In 1992, CBO estimates they will pay 29.3 percent.

- During this same period, the percentage of income that middle-income households pay in taxes is expected to tick up from 19.5 percent to 19.7 percent.

If the wealthiest one percent of households paid the same percentage of their incomes in taxes in 1992 as they paid in 1977, they would owe $42 billion more in taxes next year.

Different Income Distribution Trends

In the 1950s and 1960s, income disparities narrowed in the United States. In the early 1970s, disparities began to grow. This trend then accelerated in the 1980s. The Census Bureau has noted that the growth in inequality from 1979 to 1989 was "about twice as large as the change between 1969 and 1979."

In addition, an international comparison indicates that in other Western industrial countries, incomes are distributed less unevenly than in the United States. These data show that the U.S. has a larger proportion of its population in the top and bottom parts of the income spectrum — and a smaller portion in the middle — than other countries do.

This study, known as the Luxembourg Income Study, also examined child poverty rates in various Western countries, as well as the degree to which government policies reduced these rates. In each country, children living in families with incomes below 40 percent of that country's median disposable income, as adjusted by family size, were considered poor. The study found:

- In 1986, the U.S. child poverty rate before taxes and government benefits, stood at 22.3 percent. The average rate for all of the countries compared to the U.S. was 13.2 percent.

- When the effects of taxes and benefits were considered, the U.S. child poverty rate barely budged, dropping to 20.4 percent. In sharp contrast, policies in other countries reduced child poverty by nearly two-thirds, to 4.8 percent.

- After taxes and benefits are considered, the U.S. child poverty rate was *more than four times the average child poverty rate in the other nations in the study.*

Another recent study found that from 1979 to 1986, the poverty rate fell in Canada while rising in the United States even though the recessions of that period were more severe in Canada. The study found that the principal reason for the divergent trends was that Canada expanded public benefit programs while such programs were cut here. By the mid-1980s, the child poverty rate was twice as high in the U.S. as in Canada.

In short, it appears that alternative government policies can help yield different poverty and income distribution outcomes than those experienced in the United States.

I. Widening Income Disparities

New data compiled by the Congressional Budget Office, and published this May in the *1991 Green Book* issued by the House Committee on Ways and Means, provide fresh evidence of a growing trend toward greater income inequality in the U.S.[1] The data cover the period from 1977 to 1988. The latter year is the latest for which data are available from all of the data sources used by CBO.[2]

Differing Income Trends

During the 11-year period examined by CBO, the incomes of the wealthiest households shot up dramatically.[3] But middle-income households received only a slight income gain, and low-income households became poorer. (*After*-tax income data are examined here because they are a better gauge than *before*-tax income of the resources people have available to spend.)

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[1] Committee on Ways and Means, U.S. House of Representatives, *1991 Green Book: Background Material and Data on Programs within the Jurisdiction of the Committee on Ways and Means*, May 7, 1991.

[2] CBO selected 1977 as a comparison year because it preceded significant tax changes in Social Security and income taxes enacted in 1977 and 1978. The 1977 data are compared here to 1988, which is the latest year for which CBO has calculated after-tax income data.

[3] CBO uses the term "families" to describe the income units in its data tables. Since the CBO definition of "family" includes people living alone, however, we use the term "households" here. That is the term the Census Bureau uses to describe living units of one or more people.

- From 1977 to 1988, the average *after*-tax income of the poorest fifth of households fell 10 percent, after adjusting for inflation.[4] (See Figure 1.)

- For the middle fifth of households, there was little change in after-tax income. These households experienced an average after-tax income gain of less than four percent over this period.

- By contrast, the top fifth of households realized an average gain in after-tax income of 34 percent.

- Most substantial were the income gains garnered by the richest one percent of Americans. *Their average after-tax income more than doubled from 1977 to 1988,* rising 122 percent after adjusting for inflation. The average after-tax income of these households reached $451,000 in 1988, up from $203,000 in 1977. (To be comparable to each other, the dollar figures for 1977 and 1988 are adjusted for inflation; they are expressed here in 1992 dollars.)

After-Tax Income Shares

As a result of these developments, the division of the overall economic pie has become much more unequal. An especially large share of income is now

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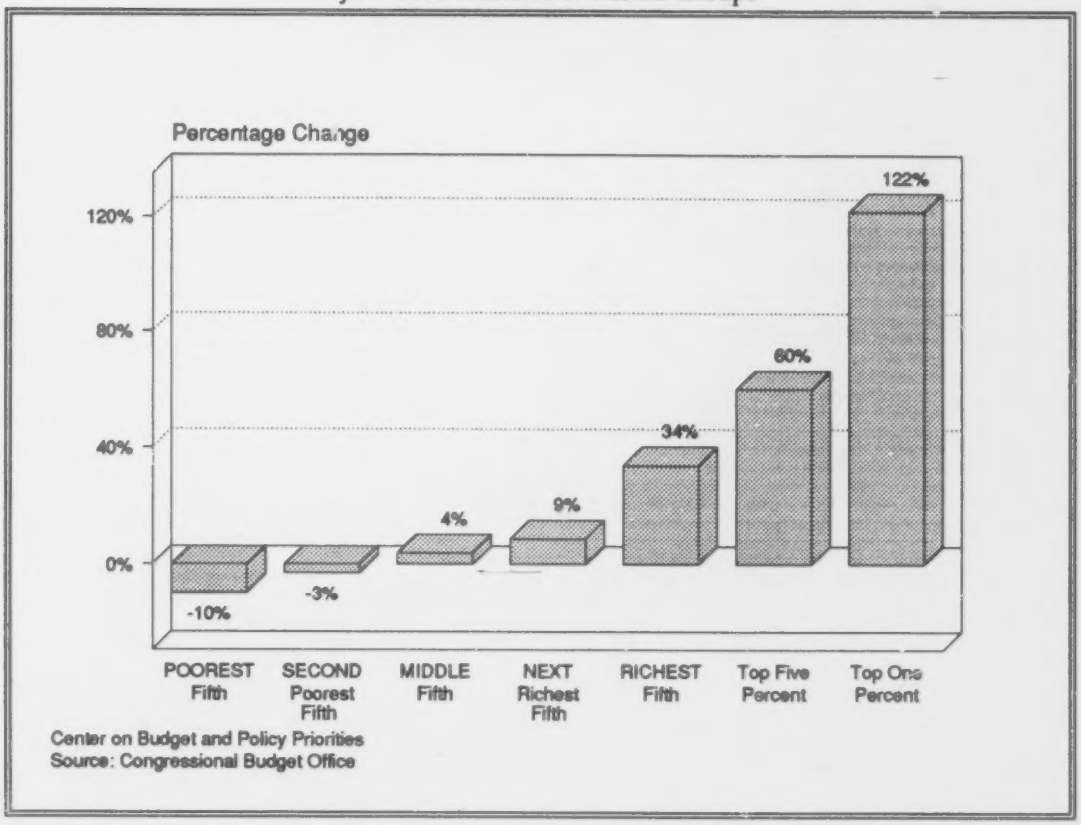
[4] The CBO figures are based primarily on Census income data, but reflect a somewhat broader measure of household income than Census data do. For example, Census data recognize only the first $299,999 of earnings from a worker's primary source of employment. If an individual earns more than that, the individual is recorded as having earnings of exactly $299,999. CBO uses data from other government sources such as the Internal Revenue Service to estimate earnings above the Census cutoff. In addition, the Census data also exclude capital gains income, while the CBO data include this income.

CBO also assigns households to income quintiles in a somewhat different manner than the Census Bureau traditionally does. The Census Bureau divides all households into five groups, with each group having an equal number of households. The 20 percent of households with the lowest incomes become the bottom quintile, and the 20 percent with the highest incomes become the top quintile. CBO, on the other hand, accounts for the fact that larger households have greater income needs than smaller households. Accordingly, it adjusts each household's income according to the household's size before assigning the household to a quintile. CBO's quintiles contain equal numbers of *people*, rather than equal numbers of *households*. This is a superior method to dividing the population into quintiles, since a $20,000 income is far more ample for a single-person household than for, say, a household of six.

Finally, CBO uses the CPI-X, the experimental Consumer Price Index, to adjust its income figures for inflation for years before 1983. For further information on the CBO data and methodology, see *Green Book*, pp. 1289 - 1291.

Figure 1
Average After-Tax Income Gains and Losses Between 1977 and 1988,
By Various Household Income Groups



received by the richest one percent of Americans. The share of income received by virtually all other groups of Americans has fallen.

- In 1988, the total after-tax income of the richest one percent of all Americans was almost as great as the total after-tax income of the bottom 40 percent of Americans combined. In other words, *the richest 2.5 million Americans now have nearly as much income as the 100 million Americans with the lowest incomes.* (See Table 1.)

- This is in sharp contrast to 1977, when the total after-tax income of the bottom 40 percent of Americans was more than double the total after-tax income of the richest one percent. (In 1977 the bottom 40 percent of the population received 17.3 percent of the nation's after-tax income. This share fell to just 14.1 percent in 1988. During this same period, the share of after-tax income received by the richest one percent of the population jumped from 7.3 percent to 12.8 percent.)

Table I
Changes in Distribution of Total U.S. After-Tax Income, 1977-1988

National income category	Share of National After-Tax Income 1977	1980	1985	1988
Poorest fifth	5.7%	5.4%	4.4%	4.3%
Next poorest fifth	11.6	11.4	10.1	9.8
Middle fifth	16.3	16.2	15.3	15.1
Next richest fifth	22.7	22.6	22.0	21.4
Richest fifth	44.0	44.9	49.0	49.8
Middle three-fifths	50.6	50.2	47.4	46.3
Richest five percent	18.5	19.7	23.4	25.2
Richest one percent	7.3	8.4	11.2	12.8

Note: table reads as follows: "in 1988, the poorest fifth of the population received 4.3 percent of all after-tax income."

Source: Congressional Budget Office

- Moreover, just the aggregate *increase* between 1977 and 1988 in the incomes of the richest one percent of Americans substantially exceeded the *total* incomes in 1988 of all Americans in the poorest 20 percent of the population.

The share of the national income going to the middle class declined during this period.[5] In 1977, the broad middle class — the 60 percent of U.S. households in the middle of the income spectrum — received 50.6 percent of all after-tax income. By 1988, their share had dropped to 46.3 percent.

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[5] Indeed, the only group receiving a larger share of after-tax income in 1988 than in 1977 was the richest five percent of Americans. From 1977 to 1988, the after-tax income share of the richest five percent of the population increased by 6.7 percentage points, from 18.5 percent of the national income to 25.2 percent. Of this 6.7 percentage point gain, some 5.5 percentage points reflects the increased after-tax income share received by the richest one percent of Americans.

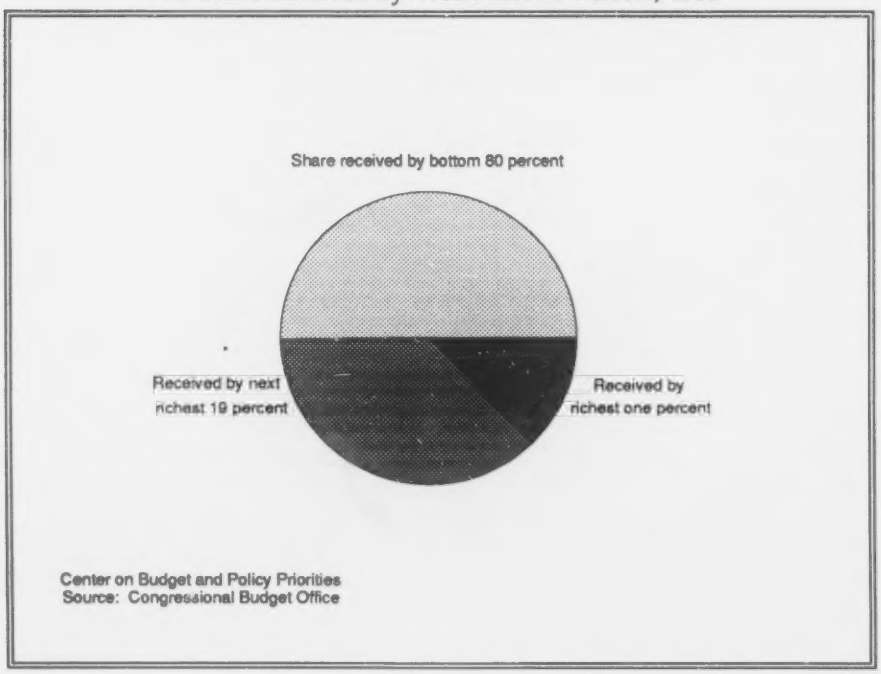
The share of the national after-tax income going to the top 20 percent of the population increased only 5.8 percentage points between 1977 and 1988, or *less* than the increase received by the richest five percent of households. Since the income share received by the richest five percent rose 6.7 percentage points, the income share received by the next richest 15 percent of the population actually *declined* 0.9 percentage points.

This leads to another new development in the division of the nation's economic pie: the large majority of the nation now shares half of the nation's income, while the top fifth of the population receives the other half.

- In 1977, the broad middle class had more after-tax income than the richest fifth of the population. By 1988, however, the situation had reversed, and the total income of the top 20 percent of the population exceeded the total income of the middle 60 percent.[6]

- In fact, the wealthiest one-fifth of the population received as much after-tax income in 1988 as the other 80 percent of the population combined. (See Figure 2.)

Figure 2
Share of After-Tax Income Received by Bottom 80 Percent of the Population vs. Share Received by Wealthiest 20 Percent, 1988


Share received by bottom 80 percent
Received by next richest 19 percent
Received by richest one percent
Center on Budget and Policy Priorities
Source: Congressional Budget Office

Some of the changes in after-tax income shares reflected in Table I may appear relatively small, such as the change in the after-tax income share of the

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[6] In 1977, the richest fifth of the population received 44 percent of the national after-tax income while the middle three-fifths received 50.6 percent. These shares had flip-flopped by 1988. In that year, the richest fifth of the population received 49.8 percent of the nation's total after-tax income, while the middle three-fifths received 46.3 percent.

middle fifth from 16.3 percent in 1977 to 15.1 percent in 1988. But seemingly small shifts in income shares reflect differences of tens of billions of dollars in the amounts of income going to various groups.

- If the middle fifth of the population had the same share of total after-tax income in 1988 as it had in 1977, the households in this income bracket would have received $41 billion more in income in 1988.

- Similarly, if the poorest fifth of the population had the same share of total after-tax income in 1988 as in 1977, those households would have received $48 billion more in income.

- For the very wealthy, the story is quite different. If the richest one percent had the same share of total after-tax income in 1988 as in 1977, these households would have had $188 billion *less* in income.

Census Bureau Data Depict Similar Trends

The growth in income inequality shown by the CBO data is similar to that reflected in Census data released last fall. The Census data measure income in a less comprehensive fashion than do the CBO data; for example, the Census data reflect *before*-tax income instead of *after*-tax income.[7] But the Census data have two advantages: they include information on income shares for 1989, and they are available back to 1947.

The Census data show that *income is more unevenly divided today than at any time since the end of World War II.* In 1989, the share of the national income going

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[7] It also should be noted that Census data recognize only the first $299,999 of earnings from a worker's primary source of employment. If the individual earned more than that, the individual is recorded as having earnings of exactly $299,999. As a result, earnings above that level are not counted as part of the share of income going to the top fifth. If the Census data reflected earnings above $299,999, the distribution of national income would be shown to be more unequal.

Joseph Pechman observed in the 1989 presidential address he prepared for delivery to the American Economics Association that Census data "greatly understate the *increase* in inequality that has occurred during the 1980s." Over the course of the 1980s, Pechman reported, the incomes of the wealthy — particularly the top one percent of the population — increased at a much more accelerated pace than the incomes of other Americans. Because the Census data on income distribution do not count earnings above $299,999 or capital gains income, these data miss most of the sharp increase in income at the very top of the income scale.

Yet even though the Census data miss some of the increase in inequality, they still show the income gaps between the top and the bottom fifths — as well as the gap between the top and the middle fifths — to be wider than at any other time on record.

to the wealthiest fifth of families was larger than in any other year since the Census Bureau began collecting these data in 1947. By contrast, the share of national income going to the broad middle class was smaller than at any time since the Bureau began collecting these data more than four decades ago, while the share going to the bottom fifth was as low or lower than in any year since 1954.

Economic Recovery In the 1980s Failed to Reverse Trend

During some periods in U.S. economic history, income disparities have widened during recessions, as low and middle-income households bore the brunt of the downturn — but these disparities narrowed during the ensuing economic recoveries when these individuals went back to work or received raises. Only part of this pattern applied to the economic cycle from 1979 to 1989. Income disparities did widen during the back-to-back recessions of the early 1980s. These disparities did not narrow, however, during the ensuing recovery. To the contrary, the extensive data now available show that income inequality continued to widen even during the recovery years.

The Census data cited in the preceding section illustrate this point: they show that the distribution of before-tax income became more unequal during the recovery of the 1980s. In 1989, the last full year of the recovery, income was more unequally divided than at any point during the preceding four decades.[8]

Similarly, in another analysis using Census data on before-tax income, Gary Burtless of the Brookings Institution compared the income received by the wealthiest fifth of families to that received by the poorest fifth. He found the gap grew during the economic recovery.

> As in previous recessions, inequality jumped during the two recessions after 1979. But unlike previous recoveries, the 1983-89 recovery did not cause

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[8] For the more technically inclined, it bears noting that the measure of economic inequality preferred by many economists — the so-called "Gini coefficient" — was higher in 1989 than at any other time since the end of World War II. A higher Gini coefficient indicates greater inequality. The Gini coefficient rose throughout the recovery. See Richard C. Michel and Frank S. Levy, "Family Income: Slower Growth and Less Equity," *Forum for Applied Research and Public Policy*, Summer 1991, forthcoming; and for year-by-year Gini data from 1967 to 1989, see U.S. Department of Commerce, Bureau of the Census, *Money Income and Poverty Status in the United States 1989*, Series P-60, No. 168, September 1990, p. 30.

Before-tax income data from the *Green Book* that adjust income for household size also show that income inequality increased during the recovery, although these data show the income gap between the top fifth and the bottom fifth hitting its widest point in 1987 rather than 1989.

family income inequality to fall. Instead inequality rose, reaching a new post-war high.[9]

The *Green Book* includes CBO *after*-tax income data for 1977, 1980, 1985, 1988, and 1992 (data for 1992 are projected), but not for the years in between. Accordingly, the CBO data do not enable one to examine trends since the beginning of the recovery. CBO data for the recovery years from 1985 to 1988, however, do show further increases in income disparities.[10]

Finally, using after-tax income data from 1983 to 1987, Richard Michel of the Urban Institute recently examined the effects of the recovery. In an article titled "Economic Growth and Income Equality Since the 1982 Recession," Michel finds:

> [Between 1983 and 1987], post-tax income growth has been concentrated among the 20 percent of American households with the highest incomes. The middle income classes have experienced only modest income growth over this period, and the 20 percent of American households with the lowest incomes have experienced a [slight] decline in income.[11]

All of this is not to say that most Americans failed to benefit from the economic recovery. Most did. But the benefits were spread unevenly.[12]

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[9] Gary Burtless, Testimony before the Senate Budget Committee, February 22, 1991. The data he examined were not adjusted by the size of the family.

[10] From 1985 to 1988, the after-tax income of the poorest fifth of households grew a scant one percent, after adjusting for inflation. The after-tax income of the middle fifth of households increased three percent. But the wealthiest fifth of households experienced an after-tax income gain of nine percent. And for the wealthiest one percent of households, after-tax income shot up 28 percent during this short period.

[11] Richard C. Michel, "Economic Growth and Income Equality Since the 1982 Recession," *Journal of Policy Analysis and Management*, Volume 10, Number 2, Spring 1991. Michel employs a somewhat different measure of after-tax income than CBO. Michel found that between 1983 and 1987, the average after-tax income of the poorest fifth of households dropped 0.1 percent while the average after-tax income of the middle fifth of households rose 6.1 percent. Among the richest fifth of households, average after-tax income increased 10.2 percent.

[12] One description of income trends during the recovery that argued "all income groups experienced similar rates of increase" from 1983 to 1989 was *Another Look at the 1980's: A Decade of Growth and Prosperity* (Senator Peter Domenici and Senator Phil Gramm, March 1991). In making this claim, it cited a CBO compilation of before-tax Census data, adjusted for family size. According to *Another Look*, the poorest fifth of the population experienced a real growth in incomes of 11.8 percent from 1983 to 1989, the second poorest fifth a 10.7 percent increase, the middle fifth a 11.0 percent increase, the next richest fifth a 10.6 percent increase, and the richest fifth a 12.2 percent increase.

(continued...)

And for the 100 million Americans with the lowest incomes, the average gains during the recovery were too small to offset the average losses they bore during the recession years of the early 1980s.

Choosing Comparison Years

Some of the participants in the debate on income trends who have sought to downplay the growth in income disparities have used different comparison years. Frequently, they compare incomes at the bottom of the recession — using 1982 or 1983 as the starting year — to incomes at the peak of the recovery in 1989.

Not surprisingly, this practice suggests rising incomes among most of the population. But the picture painted is an incomplete one. It fails to provide information on whether the income gains registered by various income groups during the recovery portion of the business cycle were sufficient to overcome the losses they may have endured during the recession part of the cycle.

In measuring income trends over time, it is more appropriate to compare the peak year of one economic recovery to the peak year of the previous recovery. Then one can judge whether families are better or worse off after the full economic cycle has been completed. The best comparison covering the 1980s would compare data for 1989 (the last complete year of the most recent recovery) to data for 1979 (the last complete year of the previous recovery).

CBO has not computed after-tax income data for these two years, but its 1977 to 1988 comparison provides a good approximation. Both were years of economic growth shortly before peaks in the economic cycle. As noted, this comparison shows that the average income of the poorest households declined, the income of middle class households rose slightly, and the income of the wealthy surged.

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[12](...continued)

These *Another Look* figures suffer from three problems. First, the calculations appear to be mistaken. Based on published CBO compilations of pre-tax Census data for these years, the actual increase in incomes from 1983 to 1989 was 14.5 percent for the poorest fifth, 12.3 percent for each of the middle three fifths, and 16.2 percent for the richest fifth. By its own preferred income measure, *Another Look* understates the income gains of all of the population, but understates the income of the richest fifth the most.

Second, these figures represent *before*-tax income and are less comprehensive than the *after*-tax measures cited here in the main text. Third, the Census data used in *Another Look* were *not* adjusted to account for the various ways these data understate the incomes of high income individuals. As explained earlier in footnote number four, Census income data do not include income from sources such as capital gains and also include only a limited amount of the earnings of the wealthy. The CBO after-tax income data cited here *do* make these adjustments.

In short, the data in *Another Look* significantly understate the income gains of the wealthy during the recovery period.

High Unemployment Likely to Generate Greater Inequality

In mid-1990, the economy entered the downward part of the economic cycle, as a recession began. The increased levels of unemployment associated with the recession are likely to exacerbate income disparities still further.

Economists Rebecca Blank and Alan Blinder have studied the relationship between the economic cycle and income distribution. They found that "high unemployment has significant and systematically regressive effects on the distribution of income: the poorer the group, the worse it fares when unemployment rises."[13]

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[13] Rebecca M. Blank and Alan S. Blinder, "Macroeconomics, Income Distribution, and Poverty," *Fighting Poverty: What Works and What Doesn't*, edited by Sheldon H. Danziger and Daniel H. Weinberg, 1986. Blank and Blinder also reviewed other studies of this relationship; these studies produced similar findings.

II. Factors Contributing to Growing Income Disparities

Most of the growth in income disparities between the rich and the middle class — and between rich and poor — has resulted from increased inequality in before-tax incomes. The gap between the wage and salary income of high-earners and other Americans has grown sharply since 1977, as has the gap between the income that wealthy individuals receive from capital gains and the income other households derive from that source. In addition, cuts in government income-assistance programs have reduced the before-tax incomes of many low and moderate income households.

While the primary source of growing income disparities reflects widening gaps in before-tax incomes, changes in federal tax policies also contributed significantly to this trend.

Changes in Private Sector Income

One important factor contributing to increased income inequality is a growing disparity in wage and salary levels.[14] This trend emerges clearly from the

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[14] In 1988, a large majority of the income of the bottom 90 percent of the population — 74 percent — consisted of wage and salary income. By contrast, wages and salaries made up 38 percent of the income of the richest one percent of households. Capital gains income accounted for 25 percent of the income of the richest one percent of households in 1988, but for less than one percent of the income of the bottom 90 percent of the population.

Other sources of income were as follows: for the bottom 90 percent of the population, self-employment income constituted three percent of their income, investment income other than capital gains constituted seven percent, transfer income 10 percent, and "other" income six percent. For the richest one percent of the population, self-employment income made up 14 percent of their income, investment income other than capital gains 21 percent, transfer income 0.5 percent, and other income one percent.

CBO data. Wages and salaries skyrocketed for the wealthiest workers but fell for most other workers.

- The average wage and salary income of the richest one percent of Americans more than doubled from 1977 to 1988, rising 121 percent, after adjusting for inflation. The average wage and salary income of these households stood at $107,000 in 1977 but rose to $237,000 by 1988. (All data figures are adjusted for inflation and provided in 1992 dollars.)

- By contrast, the average wage and salary income of the bottom 90 percent of the population *fell* 3.5 percent during this period, declining more than $800 from 1977 to 1988.

Among some groups of low- and middle-income workers, wage developments were especially adverse. The earnings of prime-age employed men who had completed high school but not gone on to college worsened considerably during the 1970s and the 1980s. The percentage of these men who had low earnings — defined as earnings of less than $12,000 in 1987 dollars — more than doubled between 1973 and 1987 among whites, blacks, and Hispanics alike. (See Table II.) Similarly, among prime-age male workers who had *not* completed high school, the percentage that earned low wages also rose sharply.[15]

A second factor contributing to the sharpening of income disparities has been huge increases in the capital gains income of wealthy households.

- In 1977, the wealthiest one percent of households received an average of $72,000 in capital gains income, according to the Congressional Budget Office data. In 1988, these households had average capital gains income of $156,000. (Both figures are expressed in constant 1992 dollars.) During this period, the average capital gains income of the richest one percent of households rose 117 percent.

- For other Americans, the picture was quite different. The average household in the bottom 90 percent of the population experienced a $47 *drop* in capital gains income from 1977 to 1988, after adjusting for inflation. The average household in the bottom 90 percent of the population had $299 in capital gains income in 1977 and $252 in 1988.

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[15] Corresponding data for women were unavailable.

Table II
Percentage of Prime-Age (25-54) Employed Men
With Exactly 12 Years of Education
Who Earned Less than $12,000 (in 1987 dollars)

	Whites	Blacks	Hispanics
1973	6.4%	15.8%	13.1%
1979	8.9	21.8	16.8
1987	15.0	36.5	27.0

Note: table reads as follows: "in 1987, some 15.0 percent of all employed white men aged 25-54 with a high school education earned less than $12,000 a year."

Source: This *Green Book* data was drawn from Sheldon Danziger and Gregory Acs, "Educational Attainment, Industrial Structure, and Male Earnings, 1973-1987," Institute for Research on Poverty, December 1990.

Program Reductions

In the lower parts of the income spectrum, reductions in government benefit programs contributed to a decline in before-tax incomes. Data in the *Green Book* indicate that 43 percent of the increase in poverty between 1979 and 1989 was due to reductions in benefit programs at federal, state, and local levels.

Especially sharp reductions occurred in the Aid to Families with Dependent Children program, the nation's basic cash assistance program for poor single-parent families. (A small percentage of AFDC recipients live in two-parent families.)

- From 1970 to 1991, the maximum AFDC benefit for a family of three with no other income declined 42 percent in the typical state, after adjusting for inflation.

- AFDC benefits have eroded so sharply over this period that the average value of AFDC and food stamp benefits *combined* has now fallen to about the same level as the value of AFDC benefits *alone* in 1960, before the food stamp program was created.[16]

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[16] The *Green Book* data show that in 1990, combined AFDC and food stamp benefits for a family of four with no other income were, after adjustment for inflation, only 2.8 percent higher than AFDC benefits alone in 1960. Since AFDC benefits lost further ground to inflation in 1991

(continued...)

These sharp declines in AFDC benefit levels, along with federal AFDC cuts enacted in 1981, have also resulted in substantial reductions in the level of income a family can have and still maintain eligibility for AFDC. Families earning poverty wages today are much less likely to qualify for any help from AFDC than such families were a decade ago.

- In 1972, a mother with two children who earned wages equal to 75 percent of the poverty line would have been eligible for some AFDC assistance in 49 states. In 1980, she would still have been eligible in 42 states.

- But by 1990, her family could qualify for AFDC in only six states. (See Table III.)

Table III
Number of States that Supplement Low Wages with AFDC for a Mother with Two Children (without child care expenses)

	1972	1980	1990
Wages equal			
50% of poverty	49	47	37
75% of poverty	49	42	6
100% of poverty	45	33	0

Source: House Ways and Means Committee; published in *Green Book*.

To be sure, the earned income credit, created during the 1970s and subsequently expanded, helps to supplement low wages. But for low-wage working families with children, the reductions in AFDC assistance have far surpassed the increases in the earned income credit. Data in the *Green Book* show that the disposable income of a mother who has two children — and who earns wages equal to 75 percent of the poverty line — was $3,100 lower in 1990 than in 1972.[17]

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[16](...continued)
and are also being cut in some states — including two with large caseloads: California and Michigan — it is likely that combined AFDC and food stamp benefits today are at or below the 1960 AFDC levels.

[17] As used here, disposable income includes after-tax earnings, AFDC, food stamps, and the earned income credit; for more detail, see the Appendix.

In short, AFDC benefits fell precipitously over this period, and increased levels of support from other sources filled only a small portion of the gap. This is one of the major reasons the income of the poorest fifth of households declined.

The contraction of another part of the safety net — unemployment insurance — also had a detrimental effect on household incomes, with the effects felt most keenly by low and moderate income households with jobless workers. For five of the six years from 1984 to 1989, the proportion of the unemployed receiving unemployment insurance benefits set a record low; no more than 34 percent of the unemployed received benefits in an average month in any of these years. By contrast, from the end of World War II to 1983, the proportion of the unemployed receiving unemployment benefits fell below 40 percent only once — in 1966 when the proportion stood at 39 percent.

Last year, in 1990, when some 37 percent of the unemployed received benefits, another record was set. This represented the lowest proportion of the unemployed to receive benefits in any year that included a recession.

Green Book data compiled by the House Ways and Means Committee indicate that the reductions in these and other benefit programs exacerbated income disparities and increased poverty.[18] The data show that between 1979 and 1989, reductions in welfare programs like AFDC added 2.2 million people to the poverty rolls, while reductions in social insurance programs like unemployment insurance added nearly one million.

Effect of Changes In Tax Burdens

As noted, the bulk of the growth in inequality is due to increased disparities in *before*-tax incomes. From 1977 to 1988, average income before taxes fell nine percent for the poorest fifth of households and edged up four percent for the middle fifth, while climbing 31 percent for the top fifth — and 95 percent for the richest one percent of households.

Nevertheless, changes in federal tax policy did play a role in exacerbating these trends — and in increasing income disparities still further between the very wealthy and other Americans. CBO data indicate that in the period since 1977,

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[18] Low-income non-entitlement programs were also subject to substantial reductions over the past decade. Data in the *Green Book* show that from fiscal year 1981 to fiscal year 1991, total appropriations for all non-entitlement programs targeted on low income families or individuals declined 40 percent, after adjusting for inflation. If subsidized housing programs are excluded, total appropriations for the other low-income non-entitlement programs fell 19 percent.

the richest Americans received large tax reductions, while middle-income Americans did not.

- Between 1977 and 1992, the effective tax rate on the richest one percent of Americans — that is, the percentage of income they pay in all federal taxes combined — will fall 18 percent. (The CBO data cited here extend to 1992; this is done to incorporate the impact of the tax provisions in last fall's budget agreement.) In 1977, the richest one percent of U.S. households paid an average of 35.5 percent of their income in federal taxes. In 1992, CBO estimates they will pay 29.3 percent.

- As a result of this steep decrease in the effective tax rate of the richest one percent of households, they will pay $42 billion less in federal taxes in 1992. In other words, if they paid the same percentage of their incomes in taxes in 1992 as they paid in 1977, they would owe $42 billion more in taxes next year.

- While the percentage of income paid in taxes by very wealthy households fell significantly, the percentage paid by middle-income households remained stable. The percentage of income paid by the middle fifth of households in taxes was 19.5 percent in 1977; it is expected to be 19.7 percent in 1992.

For *low*-income taxpayers as a group, average tax burdens will be slightly lower in 1992 than in 1977. The poorest fifth of the population paid an average of 9.3 percent of its income in federal taxes in 1977; it will pay an estimated 8.6 percent of income in federal taxes in 1992. The modest decrease in tax burdens is principally due to expansion of the earned income credit, a refundable tax credit for low-income working families with children.

For low-income households without children, however, taxes have risen. The poorest fifth of non-elderly households without children paid an average of 12.4 percent of income in federal taxes in 1977. In 1992, they will pay 15 percent. This represents an increase in their average tax burdens of one-fifth.

The Dispute over Tax Burdens on the Wealthy

Some have argued that the tax policies of the past 10 to 15 years have *not* disproportionately benefitted the wealthy. They have noted that the proportion of all federal tax receipts paid by wealthy households is up, not down, and that the wealthy thus are bearing a larger share of the federal tax burden than in the past.

The CBO data do confirm that the share of total federal tax receipts paid by wealthy households has gone up. The wealthiest one percent of all households

Recent Reforms Improved Fairness of Tax Code

While the net effect of changes in the tax code since 1977 has been to accelerate the growth in income inequality, some recent tax changes have slightly moderated income disparities. The tax policies agreed to as part of the budget package approved in the fall of 1990 are notable in this regard.

The budget package reduced the size of the deficit by nearly $500 billion over five years, with a little over one-quarter of this deficit reduction — $137 billion — coming from increased taxes. The largest tax increases were targeted on those with the highest incomes. Data from the Joint Tax Committee show that the percentage increase in the average tax burden of families with incomes exceeding $200,000, while modest, will be three times greater than the percentage increase in the average tax burden of families with incomes between $20,000 and $50,000.

In addition, because of expansions in the earned income credit that were included in the budget agreement, House Ways and Means Committee staff estimate that 1.2 million people in working poor families will be lifted above the poverty line. This effect will not be felt fully until 1995, when the new earned income credit expansions are phased in completely.

Still, the tax system in effect in 1992 will consume significantly less of the incomes of the richest one percent of the population than it did in 1977, while taking just as large a bite out of the incomes of the broad middle class. This is because the tax cuts conferred upon the wealthiest taxpayers in the late 1970s and early 1980s were much larger than the tax increases imposed on these individuals by more recent legislation.

paid 13.6 percent of all federal taxes in 1977 and 18.3 percent of the taxes in 1992.

But this does *not* mean the wealthy were saddled with a tax increase — or that their tax bills were not cut sharply. *The reason the wealthiest households are paying a larger share of federal taxes than in the past is that they receive a much larger share of the nation's income.* The proper way to determine whether a family at any income level has received a tax increase or a tax cut is to measure the percentage of income the family must pay in taxes. And the families at the very top pay a substantially smaller percentage of income in taxes now than in the late 1970s. They are the sole income group that emerged from the past decade and a half with a large federal tax reduction.

This is illustrated by comparing the changes since 1977, by income group, in both before-tax and after-tax income. For every income group except the very wealthy, the change in after-tax income is very similar to the change in before-tax

Pending IRA Proposal Would Widen Income Disparities Further

The 1986 Tax Reform Act slashed tax rates in the upper parts of the income spectrum, and in return, closed off various tax credits, deductions, and write-offs — including tax-deductible contributions to an Individual Retirement Account. For example, married filers with adjusted gross incomes exceeding $50,000 are now ineligible for any IRA deduction. This has led to a claim that this change "ended IRAs for the middle class."

Legislation introduced earlier this year (by Senators Lloyd Bentsen and William Roth in the Senate and by Representatives J. J. Pickle and William Thomas in the House) would restore universal IRA deductibility, while liberalizing IRAs in other ways as well. As of early June, the legislation had 78 sponsors or co-sponsors in the Senate and 151 in the House.

Yet a Joint Tax Committee analysis shows the benefits from such legislation would accrue overwhelmingly to those in the upper parts of the income scale, and not to the middle class.

- Only one-fifth of all taxpayers have incomes exceeding $50,000, but they would receive approximately 95 percent of the tax benefits from restoring IRA deductibility to those who lost it in the Tax Reform Act.* This is as high as the percentage of the tax benefits that would go to the top fifth under a capital gains tax cut.

- The wealthiest 4.5 percent of taxpayers — those with incomes of at least $100,000 — would collect nearly one-third of the tax benefits.

- The bottom four-fifths of taxpayers would receive the remaining five percent of the tax benefits.

The reasons the tax benefits are so skewed include: most middle and lower income taxpayers are already eligible for IRA tax deductions (the Joint Tax Committee reports that 82 percent of all taxpayers with earnings are still eligible for tax-deductible IRA contributions, with 73 percent remaining eligible for a full $2000 deduction); the higher a taxpayer's income level, the more likely the taxpayer is to use IRA deductions (in 1986, the last year IRA deductions were available to all taxpayers, 66 percent of the tax filers in the top four percent of the income scale made IRA contributions, but only 13 percent of those in the middle third of the income scale did); and the higher an individual's tax bracket, the greater the tax benefit derived from an IRA deduction. (Such a deduction is worth twice as much to a taxpayer in the 31 percent tax bracket as to one in the 15 percent bracket.)

*These data are based on the Joint Committee's estimate of the number of tax returns in each income category (based on 1990 income levels and tax laws) and the Joint Committee's estimate of the distributional impacts of a proposal to make IRAs 50 percent deductible for taxpayers who lost deductibility under the Tax Reform Act of 1986. The Joint Committee has not yet released estimates of the new IRA proposal, based on 1991 income levels and tax laws; when they are issued, the new estimates are not expected to result in much change in the overall distributional pattern cited here.

income. For example, from 1977 to 1988, the average *before*-tax income of the middle fifth of households will rise 3.9 percent, while their average *after*-tax income will rise 3.6 percent. The similarity in the changes in before-tax income and after-tax income means that for these income groups, the percentage of income consumed by taxes changed little during this period.

But for the wealthiest one percent of households, the picture is very different. Between 1977 and 1988, the average before-tax income of these households rose 95 percent while their average *after*-tax income rose 122 percent. More than one-fifth of the huge gain in after-tax income received by the nation's richest households during this period resulted from the large tax cuts they received, principally as a result of changes in federal tax policy.[19] (See Table IV.)

Table IV
Percentage Changes in Before-Tax and After-Tax Income

	Income Changes From 1977-1988		Projected Income Changes From 1977-1992	
	Before-tax	After-tax	Before-tax	After-tax
Lowest Fifth	-9.3%	-9.6%	-10.1%	-10.1%
Second Fifth	-2.0	-2.5	-3.1	-3.3
Middle Fifth	3.9	3.6	2.8	2.3
Fourth Fifth	9.6	9.0	8.4	8.2
Top Fifth	31.1	33.6	33.1	34.2
Top five percent	51.4	60.1	57.5	63.4
Top one percent	95.3	122.1	113.0	134.4

Source: Congressional Budget Office

[19] Some have argued there is a direct relationship between the cuts in the tax rates of the wealthy and the sharp rise in their before-tax incomes. They contend that lower tax rates led the wealthy to move some of their money out of unreported tax shelters and into forms of income that are reported and are subject to taxation. While some such movement could have occurred, there are no data to substantiate this. Moreover, it is unlikely such a movement of money could explain the lion's share of the very large growth in the after-tax income of wealthy households during this period.

III. Different Income Distribution Trends

It wasn't always thus. During much of the post-World War II era, income disparities in the United States were narrowing, rather than widening. As Gary Burtless of the Brookings Institution has observed: "Before 1973, income growth was rapid for families everywhere in the distribution, but was strongest for families near the middle."[20]

The Census Bureau data to which Burtless refers show that for all groups of families, incomes grew between 1947 and 1973 at an annual rate of about 2.5 percent, after adjusting for inflation. But from 1973 to 1989, income rose at an annual rate of below one percent for all income groups except the richest fifth.

Moreover, while the growth in income inequality began in the early 1970s, this trend accelerated in the 1980s. The Census Bureau noted last year that a commonly used measure of income inequality indicates the growth in inequality from 1979 to 1989 was "about twice as large as the change between 1969 and 1979."[21]

To be sure, much of the growth in income inequality in recent years has been due to basic changes in the economy and would likely have occurred regardless of which government tax and spending practices were followed.

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[20] Gary Burtless, Testimony before the Senate Budget Committee, February 22, 1991.

[21] U.S. Department of Commerce, Bureau of the Census, *Money Income and Poverty Status in the United States 1989*, Series P-60, No. 168, September 1990. The standard measure of income inequality calculated by the Census Bureau is the "Gini-coefficient."

Nevertheless, the evidence cited in this report suggests that federal policies in recent years accelerated these trends, rather than ameliorating them.

A different path for government policy clearly is possible. This is illustrated by the budget bill enacted last fall. In addition, an international comparison indicates that in other Western industrial countries, incomes are distributed more evenly than in the United States, with public policies having a significant impact on this outcome.

The Luxembourg Income Study — one of the most comprehensive studies of its sort ever undertaken — compares income levels, poverty rates, and government policies in selected Western nations, including the United States. Data from the study show that income is distributed more unevenly in the United States than in any of the comparison nations.

- In the United States, 24.2 percent of the population had incomes much lower than the median income. In the average comparison country, 16.9 percent of the population had incomes that were low relative to the country's median. (In this comparison, an unweighted average was calculated for Australia, Canada, Germany, Israel, Netherlands, Norway, Sweden, Switzerland, and the United Kingdom.)

- In the U.S., 53.7 percent of the population had incomes at or near the median. The middle class was much larger in the comparison countries, equaling 64.4 percent of the population, on average.

- At the same time, the U.S. had a larger share of the population with incomes well above the median income. Some 22.1 percent of the U.S. population fell into this category, compared to an average of 18.8 percent in the comparison countries.[22]

The Luxembourg Income Study also examined child poverty rates in various countries, as well as the degree to which government policies reduced these rates. In each country, children living in families with incomes below 40 percent of that

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[22] The source for these data, which are reported in the *Green Book*, is Timothy M. Smeeding, "Income Inequality: Cross-National and Comprehensive Perspectives," Statement prepared for the Joint Economic Committee, May 11, 1989, using Luxembourg Income Study database.

For each country, people with incomes considered to be low relative to the median income are those people whose family incomes are less than 62.5 percent of their country's median income, adjusted for family size. Middle-income people are those with family incomes between 62.5 percent and 150 percent of median adjusted income. Upper income people are considered to be those living in families with incomes above 150 percent of median adjusted income.

country's median disposable income, as adjusted by family size, were considered poor.[23] (This yields a poverty line for the United States that is extremely close to the official poverty line.) The study's findings show:

- In 1986, the U.S. child poverty rate before taxes and government benefits stood at 22.3 percent. The next closest rate was 18.7 percent in France, while the average rate for all of the countries compared to the U.S. was 13.2 percent. (See Table V.)

- When the effects of taxes and benefits were considered, the U.S. child poverty rate barely budged, dropping to 20.4 percent. U.S. policies directly reduced child poverty by less than one-tenth. In sharp contrast, policies in other countries reduced child poverty by nearly two-thirds, to an average of 4.8 percent.

- The study showed that the child poverty rate in the U.S., after taxes and benefits are considered, was *more than twice that in Canada and four times the average child poverty rate in the other nations in the study.* It also showed that the poverty rate just among white children in the U.S. was higher than the poverty rate among *all* children in all other countries in the study except Australia.

In short, the private economy in the United State generates more relative poverty among children than the private economies of many other western, industrialized nations — and the U.S. then does far less than the other nations to address this problem.

A recent study comparing family poverty trends from 1970 to 1986 in the United States and Canada also is illuminating. During the period examined, the poverty rate among non-elderly families increased in the U.S., while falling by 60 percent in Canada. The study found that faster economic growth in Canada during the 1970s explained our northern neighbor's better progress against poverty in that decade, but that "virtually all of the [large] difference in U.S. and Canadian poverty rates between 1979 and 1986 is attributable to changes in the number of families moved out of poverty by [government benefit programs]."[24]

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[23] Because this relative poverty measure is based on each country's median income, it is, to some degree, a comparative measure of income distribution. It estimates what share of children in a country live in families with very low incomes relative to the median income in that country.

[24] Maria J. Hanratty and Rebecca M. Blank, "Down and Out in North America: Recent Trends in Poverty Rates in the U.S. and Canada," National Bureau of Economic Research, Inc., Working Paper No. 3462, October 1990.

Table V
Child Poverty Rates in Selected Nations

	Year	Poverty Rate Before Benefits and Taxes	Poverty Rates After Benefits and Taxes	Net Change due to Benefit and Tax Policies
Australia	1985	16.4%	9.0%	-45%
Canada	1987	15.7	9.3	-41%
France	1979	18.7	4.7	-75%
Netherlands	1983	15.2	4.0	-74%
Sweden	1987	7.7	0.8	-90%
United Kingdom	1979	10.5	3.3	-69%
West Germany	1984	8.4	2.8	-67%
Average*		13.2	4.8	-64%
United States	1986	22.3	20.4	-9%

Source: Timothy M. Smeeding, "Cross National Perspectives on Trends in Child Poverty and the Effectiveness of Government Policies in Preventing Poverty among Families with Children in the 1980's: The First Evidence from LIS," Unpublished manuscript. See *Green Book*, p. 1155.

*This reflects an unweighted average of the most recent data provided for the seven comparison nations.

The study found that from 1979 to 1986, benefits were made more generous in Canada, but cut in the U.S. As a result, even though the recession was deeper and more protracted in Canada — and the unemployment rate was higher there in 1986 than in the U.S. — family poverty declined in Canada during this period while rising significantly in the U.S.[25]

Alternative government policies, it appears, can help yield different poverty and income distribution outcomes than those experienced in the United States in recent years.

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[25] The study also found that demographic factors played only a minor role in explaining the differences in poverty trends in the two countries. In fact, the study found that if Canada had the same age, sex, and family-size composition as the U.S., its poverty trends during this period would have been largely unchanged.

In addition, the study found that in 1979, poverty rates among single-parent families were similar in the two countries (34 percent in the U.S. and 31.5 percent in Canada) but that by 1986, the poverty rate for this group was nearly 15 percentage points higher in the U.S. Nearly 90 percent of this sharp divergence between 1979 and 1986 in the poverty rates for single-parent families was due to benefit expansions in Canada and benefit cutbacks in the U.S., the study reported. Moreover, the increases in benefits did not lead to sharp reductions in work by single parents in Canada. To the contrary, the number of weeks worked by female single parents increased in Canada — and also rose relative to the number of weeks worked by single parents in the U.S.

APPENDIX

Average Disposable Income at Various Wage Levels for a Mother and Two Children (with no child care expenses)

	1972	1980	1990
		(in 1990 dollars)	
Wages equal 50% of poverty			
Wages	$5,210	$5,210	$5,210
AFDC	6,140	3,490	1,475
Food stamps	1,335	1,530	2,187
EIC	0	521	729
Federal taxes	-271	-319	-399
Total disposable income	12,414	10,432	9,202
Wages equal 75% of poverty			
Wages	7,814	7,814	7,814
AFDC	4,895	2,335	284
Food stamps	1,189	1,253	1,895
EIC	0	781	953
Federal taxes	-406	-479	-598
Total disposable income	13,492	11,704	10,348
Wages equal 100% of poverty			
Wages	10,419	10,419	10,419
AFDC	3,563	1,449	0
Food stamps	1,043	883	1,341
EIC	0	681	953
Federal taxes	-543	-919	-797
Total disposable income	14,482	12,513	11,916

Note: As discussed in the text, this table indicates that because of changes in federal policy, the disposable income of low-income working mothers fell sharply between 1972 and 1990. (AFDC benefit levels reflect a weighted average for all the states.)

Source: House Ways and Means Committee staff; published in *Green Book*, p. 1079.

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